



April 5, 2012

Board of Trustees
Pennsylvania Public School Employees' Retirement System
5 North 5th Street
Harrisburg, PA 17101

Re: Sankaty Credit Opportunities V, L.P.

Dear Trustees:

Sankaty Advisors LLC, ("Sankaty" or the "Firm"), is seeking to raise \$3.5 billion of commitments for Sankaty Credit Opportunities V, L.P. (the "Fund" or "COPs V"). Formed in 1997, Sankaty is the credit investment affiliate of Bain Capital and manages approximately \$15.5 billion of committed capital. The Fund is Sankaty's fifth fund and is being formed to invest opportunistically in the following asset class mix: (i) global distressed securities; (ii) capital solutions; and (iii) special situations. Prior Sankaty COPs funds invested in these three strategies as well as structured products and middle market lending.

COPs V will target credit and special situations opportunities resulting from market dislocations and/ or stressed and distressed corporate issuers. COPs V's strategy mandate will include global distressed securities, capital solutions, and special situations (see below for further descriptions) although prior COPs funds' mandates included additional asset classes, such as structured products and middle market lending. The Fund will target securities, which are expected to yield greater than 15%. The Fund has the flexibility to invest across corporate capital structures, geographies and in the public and/ or private markets. COPs will invest in cash bonds, senior secured loans, subordinated and mezzanine notes and DIP facilities. In addition, the Fund will invest in credit derivatives (primarily credit default swaps), common and private equities and options. Due to the size of the team and the flexibility of the strategy, Sankaty generally will have a minimum of 100 to 200 long positions in the Fund when fully invested. Holding periods may vary, but for prior COPs funds, they typically have had a weighted average life of approximately 18 months.

Sankaty utilizes a bottom-up fundamentally driven investment approach, leveraging the depth and experience of the 88 person investment team, to rigorously analyze credits which may be underfollowed, mispriced or perhaps out of favor with the market due to headline risk. The Firm seeks to uncover opportunities that are either too small to be meaningful to larger peers or too complex for smaller competitors who lack the resources to perform the proper due diligence. When considering an investment that meets the Fund's return objectives, Sankaty seeks to minimize the downside risk. In addition,

Sankaty is able to leverage its significant scale and presence in the public and private fixed income markets with \$15.5 billion in committed assets.

Sankaty believes that the prior COPs funds have benefited from their flexible nature, allowing Sankaty to shift the mix of assets based on the opportunities available in the broader credit markets. Sankaty believes that over the anticipated lives of the Fund, each of the targeted asset classes (global distressed securities, capital solutions and special situations) may experience windows of attractive risk-adjusted returns. The flexible structure of the Fund is designed to enable it to maximize risk adjusted returns by accessing the best ideas from each of the targeted asset classes.

Portfolio Advisors recommends that PSERS Board accept staff's recommendation to commit \$350 million to invest in Sankaty Credit Opportunities V, L.P. This recommendation is given solely for the benefit of PSERS and cannot be relied upon by other investors considering an investment in the Fund, since their needs, objectives and circumstances may not be identical to those of PSERS. The scope of this recommendation is limited to the investment merits of the Fund. Portfolio Advisors does not provide legal or other non-investment-related advice.

Sincerely,

A handwritten signature in blue ink, appearing to be a stylized name or initials, positioned above the typed name of the sender.

Portfolio Advisors, LLC

High Yield Fixed Income Allocation



Sankaty Credit Opportunities V-D, L.P.

April 26, 2012

James H. Grossman, Jr., CPA, CFA
Deputy Chief Investment Officer

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Sankaty Credit Opportunities V-D, L.P.

Overview of Sankaty Advisors, LLC

- Formed in 1997
- Sankaty is an affiliate of Bain Capital
- Sankaty currently manages approximately \$15.5 billion in committed fixed income assets
 - Invested across the fixed income spectrum, including performing and distressed bank loans, high yield bonds, mezzanine, special situation investments and structured products

Investment Team

- Sankaty employees 182 people
 - Includes 88 investment professionals
 - Includes 15 senior industry credit analysts
- Sankaty has offices in Boston, Chicago, New York, and London

Sankaty Credit Opportunities V-D, L.P.

Investment Strategy

- Opportunistic debt strategy (estimated allocations to each)
 - Global distressed securities (40-60%)
 - Capital solutions (20-30%)
 - Special situations (20-30%)
- Investments may include cash bonds, senior secured loans, subordinated and mezzanine notes, and DIP facilities.
- Expect 30-40% exposure to Europe; remainder in the U.S.
- Expect to have 100-200 long positions when the Fund is fully invested
- Holding periods will vary, but prior funds have had holdings with a weighted average life of about 18 months
- Targeting securities which are expected to yield 15% or more
- This fund will exclude the following strategies that were used in previous COPs funds:
 - Middle market lending
 - Structured products

Sankaty Credit Opportunities V-D, L.P.

Competitive Advantages

- Large, diversified team of investment professionals
 - 88 investment professionals
 - Access to larger Bain Capital platform enhances Sankaty's ability to source investments and generate deal flow
- Flexible investment mandate
 - Focus on best ideas from three pillars of the COPs strategy: distressed securities, capital solutions, and special situations
- Scale and industry-based focus
 - Since inception, Sankaty has looked at over 3,300 independent issues
 - Currently has 550 high yield issuers modeled that are tracked quarterly
 - In-depth analysis of each credit covered by its 14 industry teams which each cover 30-40 credits
 - Research includes a minimum of a 30-40 page credit pack, full models, and covenant analysis
- Aligned interests
 - Sankaty team committing \$120 million

Sankaty Credit Opportunities V-D, L.P.

Investment Performance since Inception thru 12/31/11

- Sankaty COPS IV: 15.14% (inception date: 9/30/2008)
- Sankaty Bank Loans: 12.19% (12/31/2009)
- Sankaty Middle Market Opportunities Fund: 13.62% (6/30/2010)

History with PSERS

- This will be the fourth investment with Sankaty Advisors
- PSERS has previously committed to the following Sankaty funds:
 - Sankaty Credit Opportunities IV, L.P.: \$500 million commitment
 - Sankaty Middle Market Opportunities Fund: \$200 million commitment
- Sankaty is managing the following amounts for PSERS as of Dec. 31, 2011:
 - Sankaty Bank Loans Separate Account: \$545,998,000
 - Sankaty Credit Opportunities IV: \$402,579,000
 - Sankaty Middle Market Opportunities Fund: \$87,366,000

Sankaty Credit Opportunities V-D, L.P.

PSERS Objective

- To earn low- to mid-teens net returns over the life of the Fund
- To broaden the high yield allocation into higher potential return opportunities

Portfolio Use

- Staff recommends a commitment of \$350 million to Sankaty Credit Opportunities V-D, L.P. and to include this investment in the High Yield fixed income allocation

Sankaty Credit Opportunities V-D, L.P.

Other

- Relationships with Portfolio Advisors: PA is invested through their discretionary fund relationships with Sankaty and Bain Capital, including Bain Capital Asia Fund I & II; Bain Capital Europe III, Bain Capital VI, VII, VIII, IX, & X; Sankaty COPS I, II, III, & IV; and Bain Venture Fund 2009 & 2012.
- Placement Agents: None
- Political Contributions in PA: None
- Introduction Source: Current relationship with manager

Sankaty Credit Opportunities V-D, L.P.

Recommendation

Staff, together with Portfolio Advisors, LLC, recommends that the Board invest \$350 million plus reasonable normal investment expenses in Sankaty Credit Opportunities V-D, L.P.

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High Yield Fixed Income Allocation



Sankaty Credit Opportunities V-D, L.P.

April 26, 2012

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